



# **The Current Restructuring Cycle: Meltdown or Metamorphosis?**

**Monday, April 27, 2009  
4:00 PM - 5:15 PM**



## Today's Speakers:



**Michael Henkin (Moderator)**  
*Managing Director and Co-Head  
of Recapitalization & Restructuring*  
**Jefferies & Company, Inc.**



**John R. Castellano**  
*Managing Director*  
**AlixPartners**



**David Hollander**  
*Partner*  
**Tennenbaum Capital Partners LLC**



**Paul Aronzon**  
*Co-Practice Group Leader, Financial Restructuring*  
**Milbank, Tweed, Hadley & McCloy LLP**

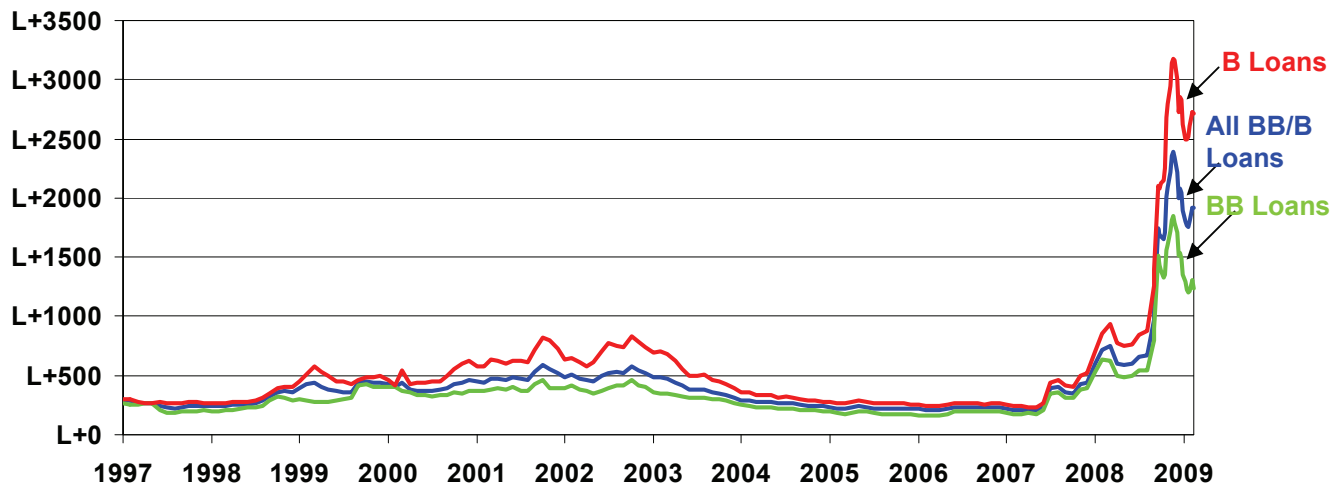


**Carl Goldsmith**  
*Managing Partner and Portfolio Manager*  
**Beach Point Capital Management**



**Doug Teitelbaum**  
*Managing Partner*  
**Bay Harbour Management**

# Leveraged loan spreads remain at historical highs

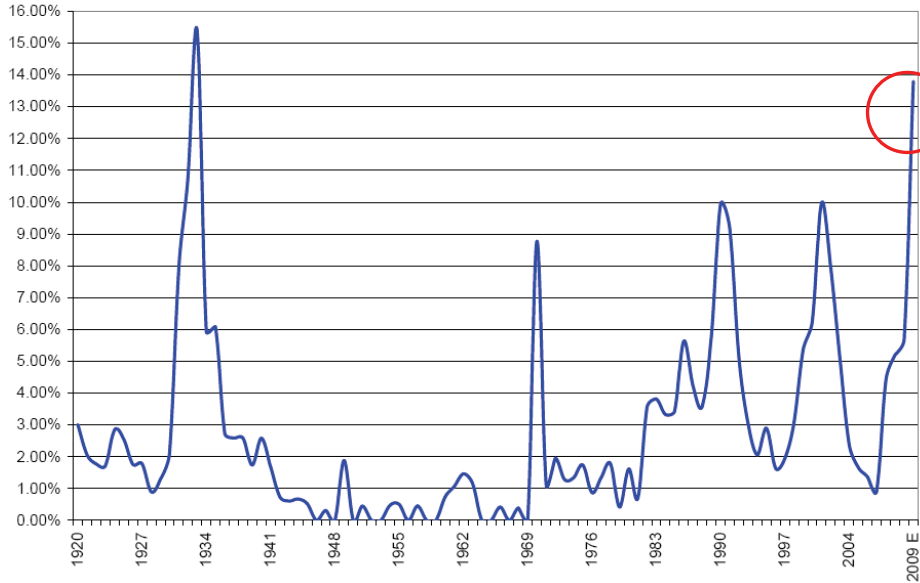


Source: Standard and Poor's LCD and S&P/LSTA Leveraged Loan Index.

Note: Excludes facilities in default.



Default Rate



**2009  
speculative  
grade default  
rates  
expected to  
be nearly as  
high as the  
Great  
Depression**

Source: Moody's.

# Communications and media represented 50.4% of all corporate bond defaults in 2001/02

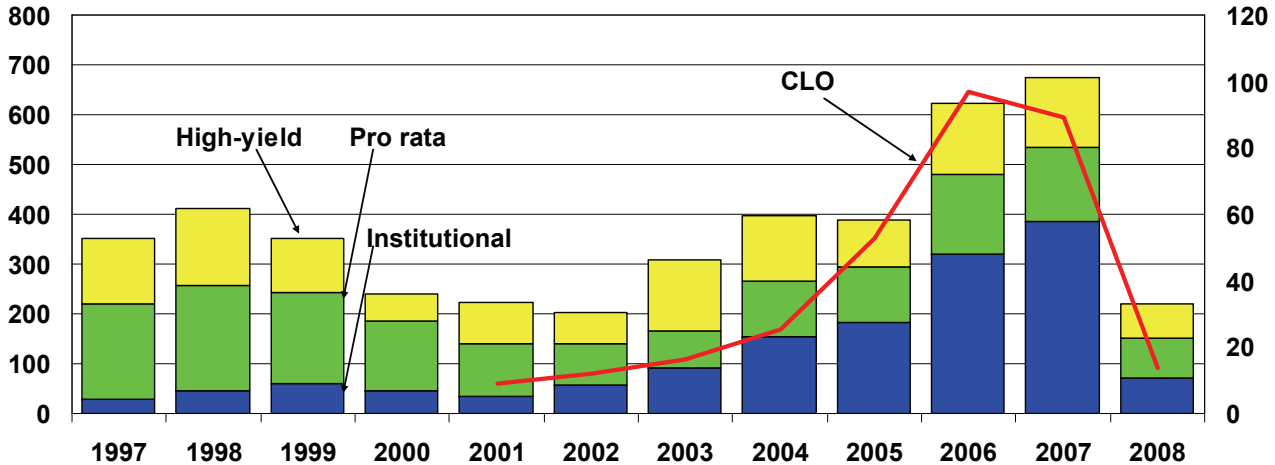
	2001/2002 (\$ Millions)	Percentage of Total Defaults
Auto/Motor Carrier	4,022	2.4%
Energy	8,285	5%
Financial Services	8,865	5.4%
Leisure/Entertainment	24,679	15%
Manufacturing	5,593	3.4%
Health Care	807	0.5%
Miscellaneous Industries	15,309	9.3%
Real Estate/Construction	2,198	1.3%
Retailing	5,678	3.5%
Communications/Media	82,780	50.4%
Transportation (Non Auto)	6,141	3.7%

Source: NYU Salomon Center.

# After enormous growth, CLO formation and institutional loan issuance has evaporated

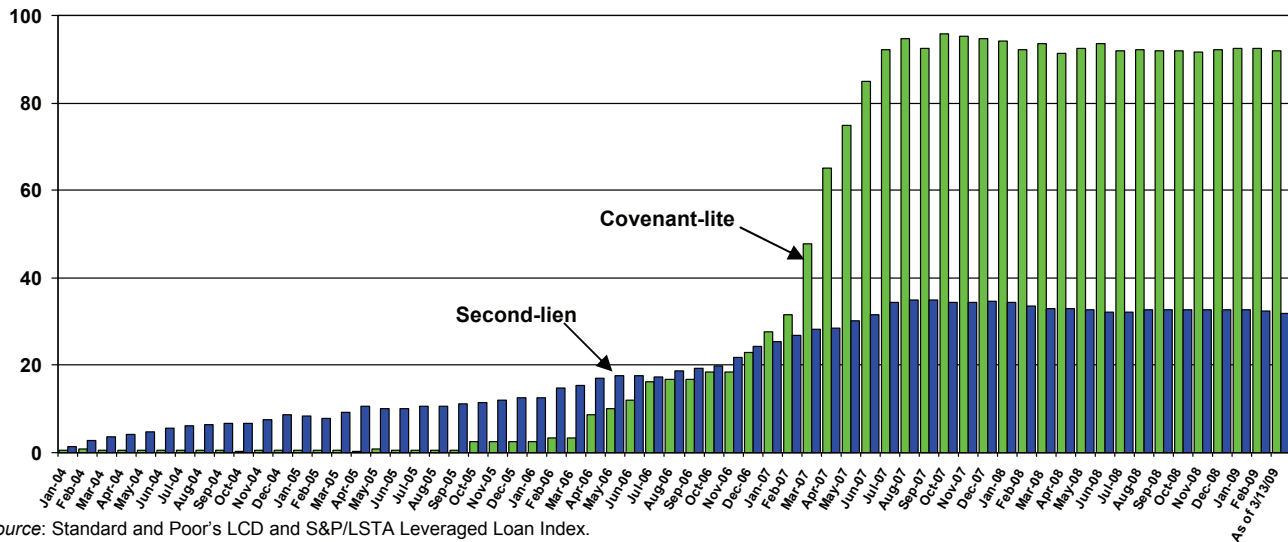
Debt market/US\$ billions

CLO/US\$ billions



Source: S&P/LCG and Merrill Lynch Global High Yield Strategy.

# 2007 saw the explosion of covenant-lite and 2<sup>nd</sup>-lien issuance that has essentially ceased



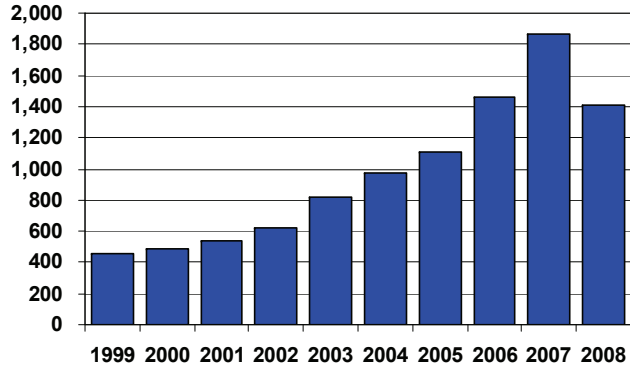
Source: Standard and Poor's LCD and S&P/LSTA Leveraged Loan Index.

Note: Comprises all loans, including those not tracked in the LSTA/LPC mark-to-market service. Vast majority are institutional tranches.

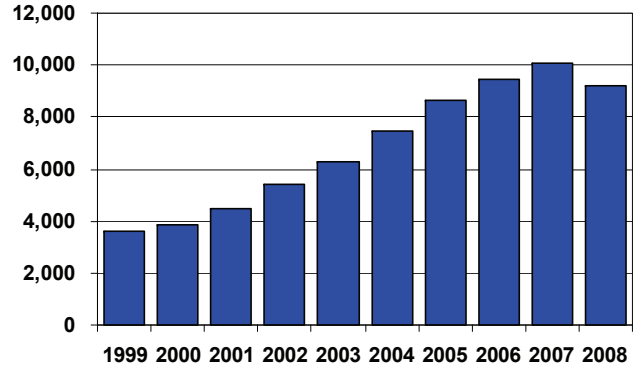
# Global hedge fund assets quadrupled from 1999-2007 before falling sharply in 2008

## Estimated assets

US\$ billions



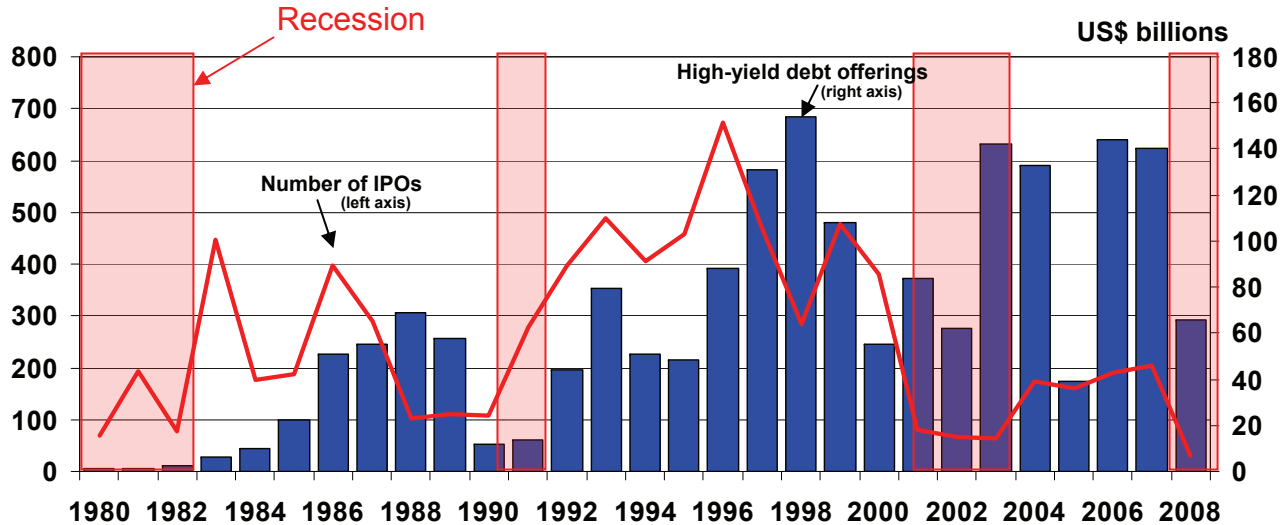
## Estimated number of funds (including funds of funds)



Source: HFR Global Hedge Fund Industry Report.



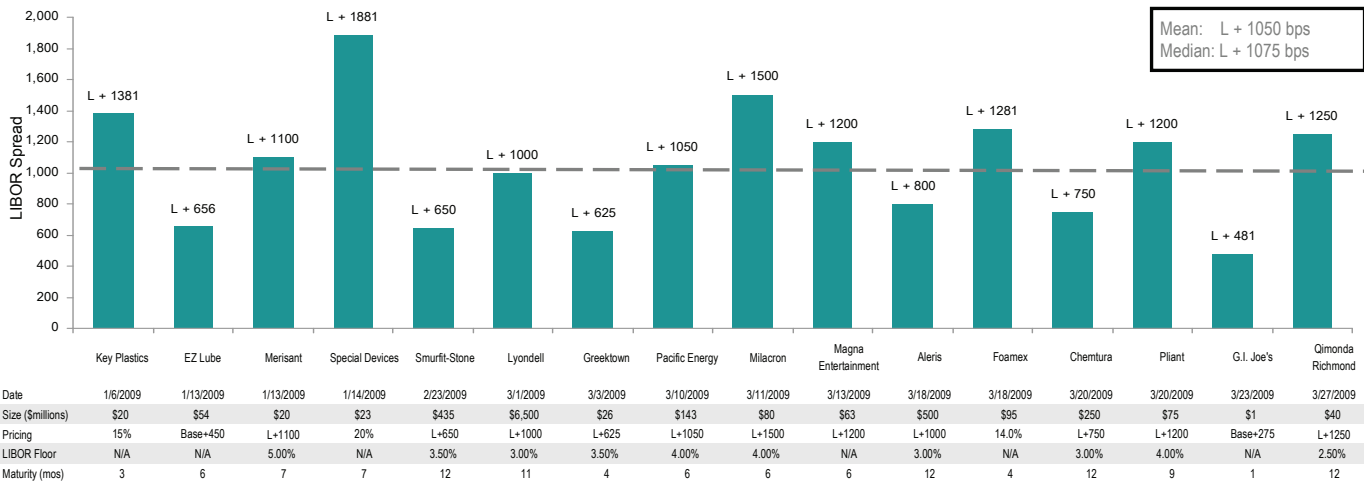
# The combined debt and equity markets are closed relative to activity in prior recessions



Source: Dealogic and S&P LCD.

# In Q1 2009 the average rate on DIP financing was L + 1050 and as high as 20%

## Summary of DIP Term Loans (Q1 2009)

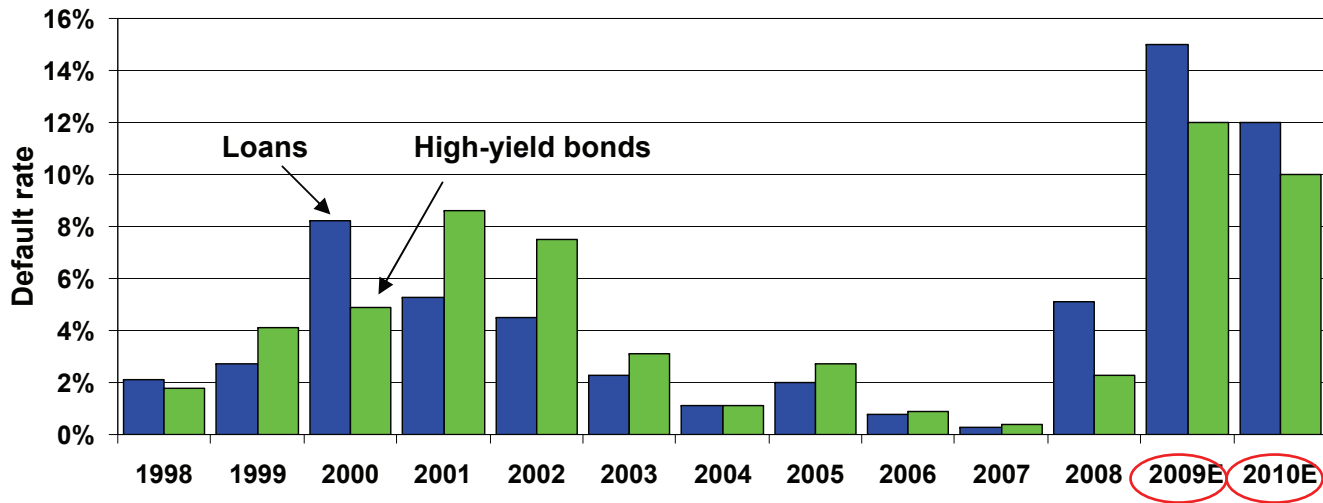


Source: Public filings.



**Additional slides**

# Projected default rates are 4x the 10-year average

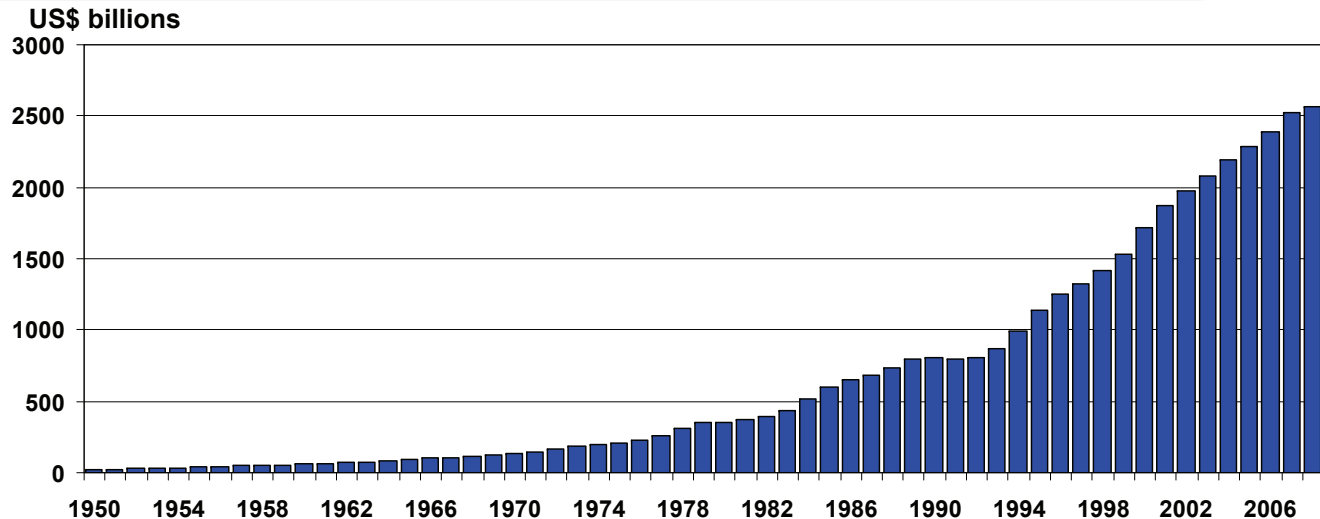


Source: J.P. Morgan, S&P LCD.

# U.S. consumer credit (excl mortgages) exceeds \$2.5 trillion

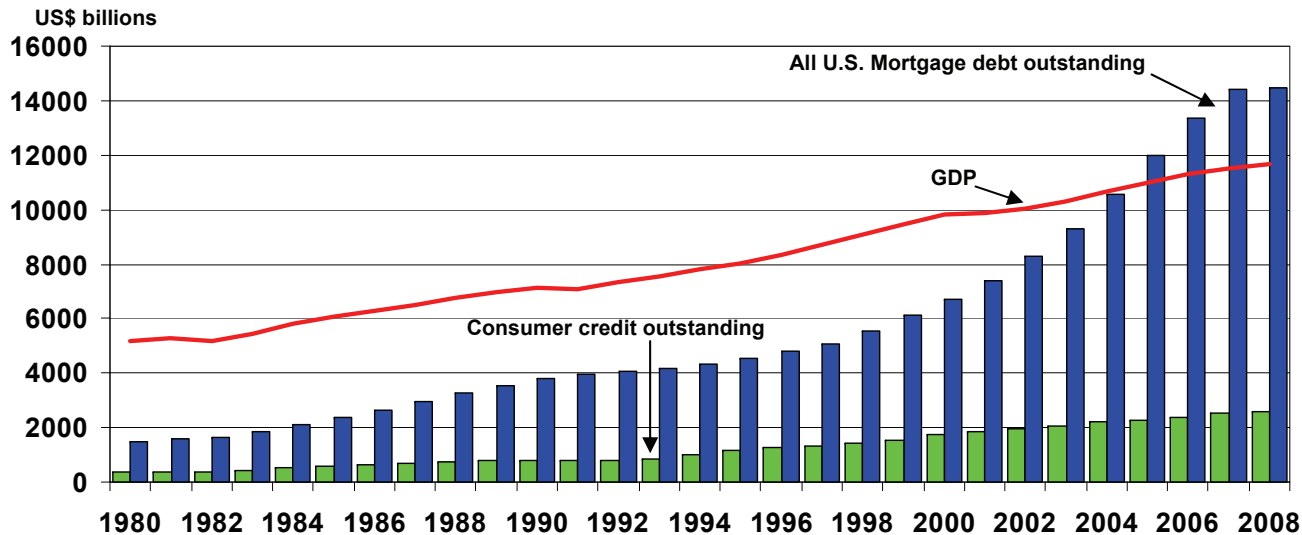


MILKEN INSTITUTE



Source: Federal Reserve.

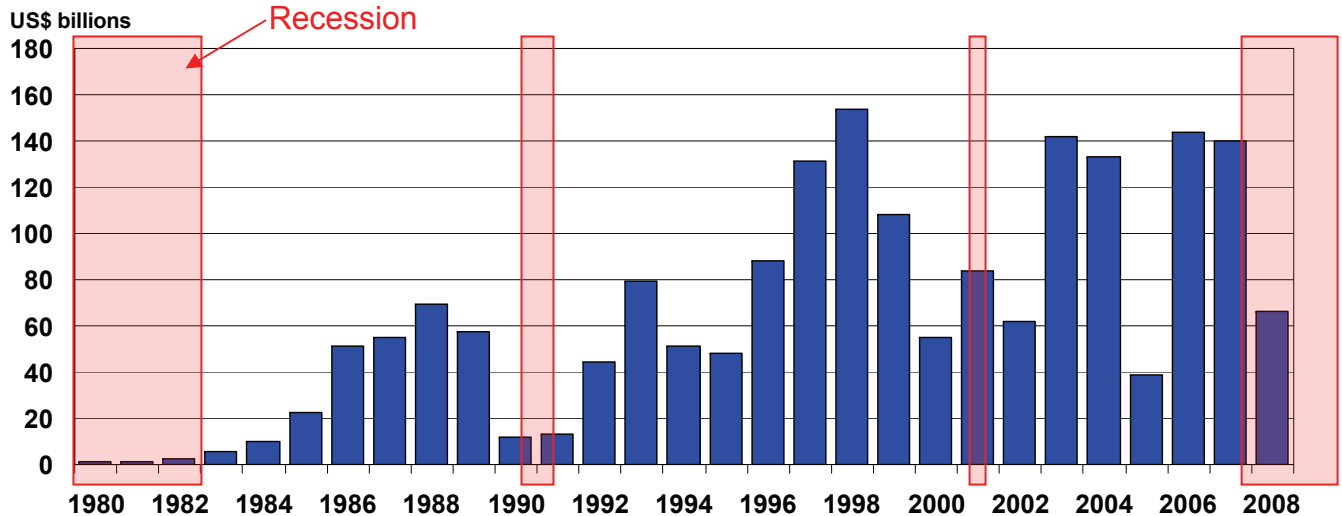
# U.S. mortgage debt surpassed GDP in 2005



Source: Federal Reserve and Bureau of Economic Analysis.

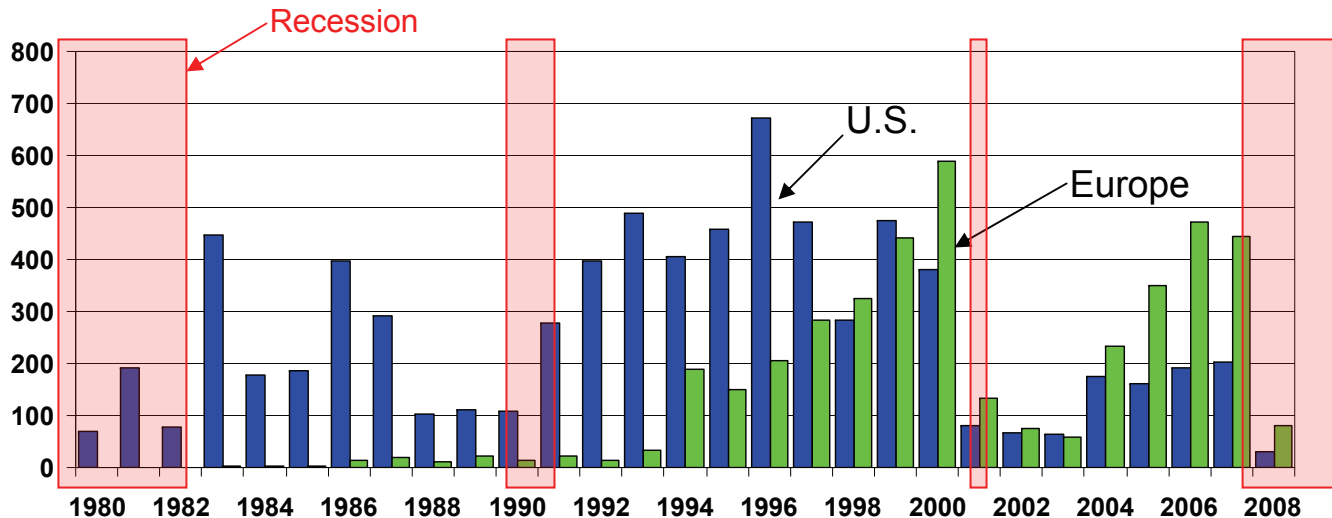


# U.S. high-yield debt offerings



Source: S&P LCD.

# Number of IPO transactions



Source: Dealogic.



# Recent high profile 363s, liquidations and shotgun weddings

LEHMAN BROTHERS

imb  
IndymacBank

Washington  
Mutual



VeraSun ENERGY

THE  
SHARPER  
IMAGE

mervyns.

LINENS-N-THINGS  
THAT'S A GREAT IDEA

STEVE & BARRY'S

FRIEDMAN'S  
JEWELERS SINCE 1920

YOU'LL LOVE IT AT  
LEVITZ

BOMBAY

Tweeter  
JUST SIT BACK AND ENJOY

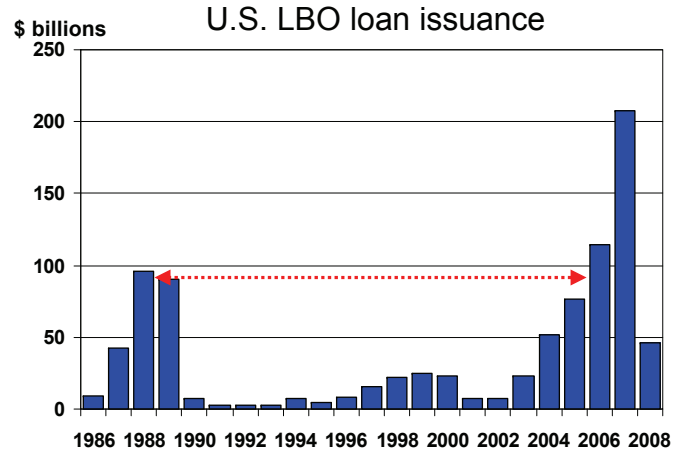
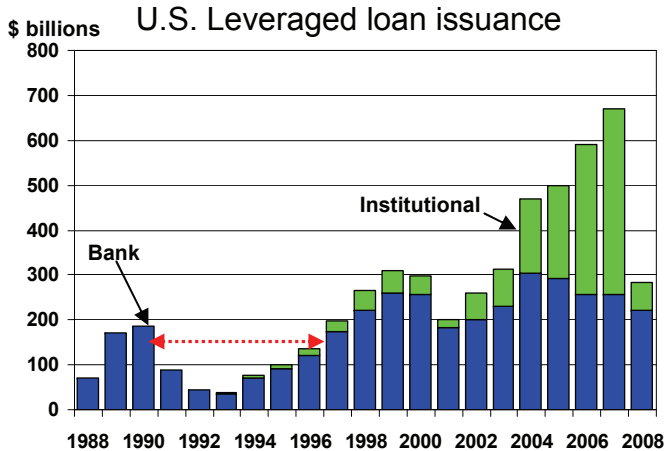
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# How long until the market recovered in past downturns?



Source: Thomas Reuters LPC.